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BSE Code: 532129 NSE Code: HEXAWARE Reuters Code: HEXT.BO Bloomberg Code: HEXW:IN

Hexaware Technologies is a global provider of IT, BPS and consulting services. It provides solutions to several clients across various industries like Banking & Financial Services, Healthcare & Insurance, Travel & Transportation & Manufacturing and Services. In terms of region-wise revenue mix, US contributed the maximum 80% to the total revenues followed by Europe (14%) and RoW (6%). Currently, it has an employee strength of over 10,000 IT professionals.

Key Developments

Hexaware's operating verticals and client base:

Hexaware specializes in offering enterprise solutions, application management and embedded system. The company is a major operator in the sphere of PeopleSoft services. Interestingly, the company derives 96% of revenues from repeat business with many existing clients. The revenue contribution from the top-5 clients increased to 43% in CY15 (37.6% in CY14) and that for top-10 rose to 55.1% in CY15 (51.3% in CY14).

Investment in sales and marketing:

Hexaware is focussing on strengthening its sales force by increasing its head count and through proper workforce planning. The company's SG&A cost has increased to 18.8% in Q4CY15 from 17.5% in Q4CY14.

Order book and client additions during CY15:

The new deal wins for CY15 stood at USD 120 mn. Further, Hexaware has adopted a "Shrink IT, Grow Digital" strategy to target competitors' dissatisfied customers. Hexaware added 37 new customers during CY15.

Financial position of the company:

Hexaware has a resilient balance sheet with healthy cash flow from operations (Rs. 346 Crores in CY15) and zero debt on its books. Besides, it has maintained a decent dividend payout over the years. This payout has grown from 46% in CY12 to 69% in CY15.

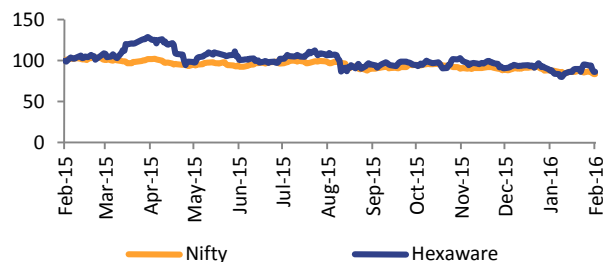
Market Data

CMP (Rs.)	263
Face Value	2.0
52 week H/L (Rs.)	336/202
Adj. all time High (Rs.)	336
Decline from 52WH (%)	21.7
Rise from 52WL (%)	30.2
Beta	1.4
Mkt. Cap (Rs.Cr)	7,931
Enterprise Value(Rs. Cr)	7,515

Fiscal Year Ended

	CY13	CY14	CY15
Total revenue (Rs.cr)	2,285	2,582	3,124
Adj. Net Profit (Rs.cr)	410	357	385
Share Capital (Rs.Cr)	60	60	60
EPS (Rs.)	13.7	11.9	12.8
P/E (x)	9.6	16.8	19.1
P/BV (x)	3.3	4.7	5.1
ROE (%)	34.2	28.7	28.3

One year Price Chart



Shareholding	Dec15	Sep15	Diff.
Promoters	71.3	71.3	0.0
Public	28.7	28.6	0.1
Others	-	0.05	0.0

Hexaware operates through four major verticals namely Banking & Financial Services including Capital Market, Healthcare & Insurance, Travel & Transportation, Manufacturing and Services.

Hexaware Technologies Ltd.: Business overview

Founded in 1990, Hexaware Technologies is an IT, BPS and consulting service provider worldwide. It operates through four major verticals namely Banking & Financial Services including Capital Market, Healthcare & Insurance, Travel & Transportation & Manufacturing and Services. On the services front, the company provides technology solutions in Application Development & Maintenance (ADM) and Enterprise Solutions including Human capital management, Business Intelligence & Analytics (BI&A), Quality Assurance and Testing services (QAT), Remote Infrastructure Management Services (IMS) and Business Process Services (BPS). ADM contributed the maximum 38% to the total revenues followed by QAT (21%), Enterprise services (18%), BI&A (15%), IMS (7%) and BPS (4%).

The company's key offerings include managing large IT applications in real time as well as providing high value services around packaged enterprise applications such as SAP and PeopleSoft. It also provides IT solutions to the Airlines Industry.

Hexaware has a diversified global presence with operations spreading across North America, Europe and Asia Pacific. It has several key alliances with Oracle, SAP, HP, Microsoft and IBM.

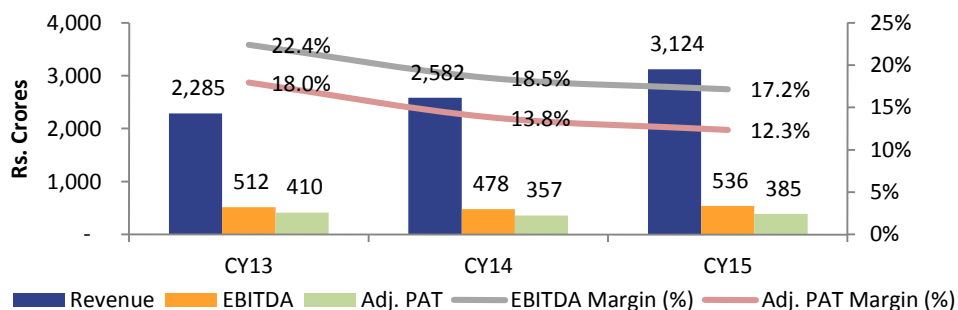
In India, its global delivery centers are located in Mumbai, Chennai, Nagpur, Pune, Coimbatore and Bengaluru. Further, it owns four overseas global delivery centers at New Jersey, Georgia, Virginia and Mexico.

Currently, it has an employee strength of over 10,000 IT professionals & in terms of region-wise revenue mix, US contributed the maximum 80% to the total revenues followed by Europe (14%) and RoW (6%).

Hexaware's Business Model



Financial snapshot of Hexaware Technologies Ltd.

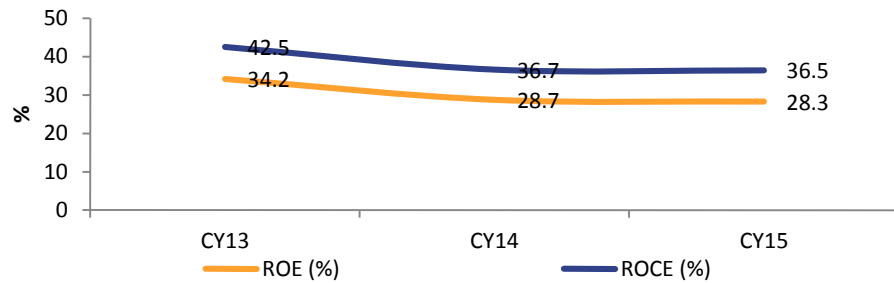


Source: Company, In-house research

BFS vertical contributes 37% to the revenue mix followed by Manufacturing & Consumer (30%), Travel & Transportation (17%) and Healthcare & Insurance vertical (16%).

Hexaware has a robust marquee client profile resulting in 96% of revenues coming from repeat business.

Return Ratios Trend



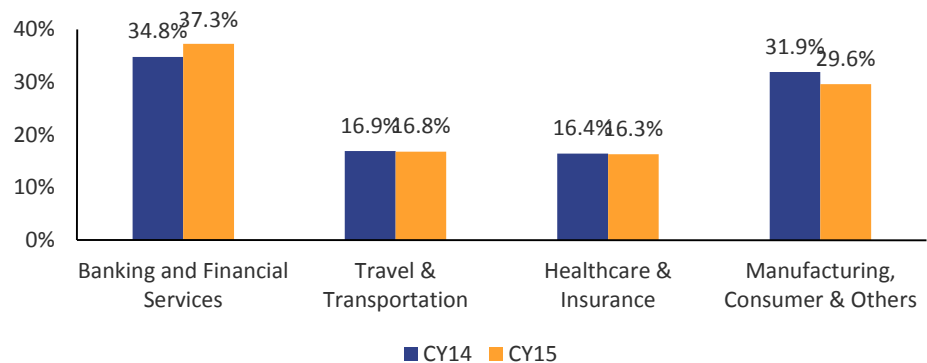
Source: Company, In-house research

Diversified presence across segments

Hexaware operates mainly in four verticals viz; Banking & Financial Services including Capital Market (BFS), Healthcare and Insurance, Manufacturing and Consumer and Travel & Transportation. In terms of revenue mix, BFS contributed the maximum 37% to the total revenues followed by Manufacturing & Consumer (30%), Travel & Transportation (17%) and Healthcare & Insurance (16%).

In terms of service line split, IMS has been the fastest growing service line for the industry & Hexaware. Currently, IMS contributes ~9% to the overall revenues. Out of the new deal wins for CY15 (USD120 mn), USD 25 mn was from IMS.

Vertical wise revenue contribution (%)



Source: Company, In-house research

Hexaware's operating verticals and client base

The company provides specialized service offerings in enterprise solutions, application management and embedded systems. The company is a major provider of PeopleSoft services.

Over the years, Hexaware has forged long standing relationship with several marquee clients resulting in repeat business. Interestingly, the company derives 96% of revenues from repeat business with many existing clients. Its established relationships with clients is evident from the fact that of the Top 10 clients, the average tenure of the relationships is greater than five years.

To drive its digital business, Hexaware has forged various alliances in 2015.

The company has witnessed significant traction in deal wins, with the company bagging USD 120 mn of orders in CY15.

Hexaware has made substantial investments in sales and marketing in the past with the SG&A cost increasing to 18.8% in Q4CY15 from 17.5% in Q4CY14.

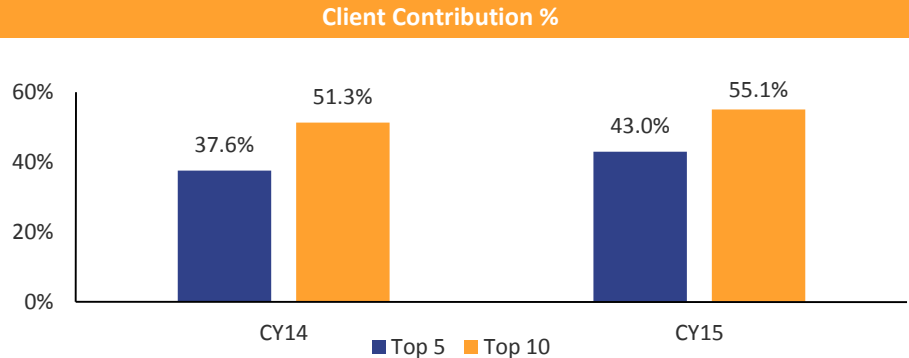
The company's dividend payout has grown from 46% in CY12 to 68% in CY15.

Digital space

The focus of the company in the digital segment is on big data, analytics and IoT. In 2015, the company has forged a partnership with Riversand Technologies. It is a worldwide provider of Master Data Management (MDM), Product Information Management (PIM) and data quality solutions. It assists customers with data management strategies and thus enables them in building the information backbone. Besides, Hexaware has also entered into a partnership with MuleSoft in the last quarter of 2015 to provide consulting and services for the MuleSoft Anypoint Platform.

CY15: new orders and client additions

The new deal wins for CY15 stood at USD 120 mn. Further, Hexaware added 37 new clients in CY15. The client mining has also remained strong with the revenue contribution from the top-5 clients increasing to 43% in CY15 (37.6% in CY14) and that for top-10 rising to 55.1% in CY15 (51.3% in CY14). Further, the company is adopting a strategy of "Shrink IT and Grow Digital" to target dissatisfied customers of the top IT companies.



Source: Company, In-house research

Sales and marketing investments

The company has strengthened its sales team by increasing its headcount and through proper workforce planning. The SG&A cost has increased to 18.8% in Q4CY15 from 17.5% in Q4CY14. It is also building capabilities in other segments like Infrastructure services (its key service line focus area). To accelerate growth in the IMS segment, Hexaware has hired Vinod Chandran (ex-HCL Technologies' veteran) as head of the business.

Financial position of Hexaware

The company's cash flow from operations stood at Rs. 346 Crores in CY15 and it had zero debt in its books. Besides, it has maintained a decent dividend payout over the years. This dividend payout has grown from 46% in CY12 to 69% in CY15. It has also comfortably hedged its future cash flows to offset foreign currency exposure with hedges worth USD 156.94 mn at an average exchange rate of Rs. 69.64 maturing over the course of the next eight quarters (from January 2016 to December 2017).

Balance Sheet (Consolidated)

(Rs.Cr)	CY13	CY14	CY15
Share Capital	60	60	60
Reserve and surplus	1,139	1,230	1,373
Net Worth	1,199	1,291	1,433
Minority Interest	-	-	-
Total Debt	-	-	-
Other non-current liabilities	21	32	35
Total Equity & Liabilities	1,221	1,322	1,469
Net Fixed Assets	355	350	477
Capital WIP	22	35	-
Goodwill	160	163	172
Investments	338	186	41
Total net CA	203	398	552
-- Net CA	(98)	111	165
-- Cash	301	287	386
Deferred tax assets (net)	(5)	18	26
Other non-current assets	147	173	201
Total Assets	1,221	1,322	1,469

Cash Flow (Consolidated)

Y/E (Rs. Cr)	CY13	CY14	CY15
Net profit/loss before tax& extraordinary items	479	418	505
Net cashflow from operating activities	336	413	346
Net cash used in investing activities	(116)	119	13
Net cash used from financing activities	(126)	(535)	(259)
Net inc/dec in cash and cash equivalents	94	(3)	100

Financial performance snapshot

Net sales of the company stood at Rs. 3,124 Crores in CY15, a growth of 21.0% as compared to Rs. 2,582 Crores in CY14. The operating expenses of the company increased by 23.0% YoY to Rs. 2,588 Crores from Rs. 2,104 Crores during the year. The company's EBITDA grew by 12.2% YoY to Rs. 536 Crores in CY15 from Rs. 478 Crores in CY14. EBITDA margin contracted by 134 bps to 17.2% in CY15 from 18.5% in CY14. Adjusted profit increased by 22.8% to Rs. 393 Crores in CY15 from Rs. 320 Crores in CY14. The NPM contracted by 152 bps to 12.3% from 13.8% during the above period.

Profit & Loss Account (Consolidated)

(Rs.Cr)	CY13	CY14	CY15
Net revenue	2,285	2,582	3,124
Expenses	1,773	2,104	2,588
EBITDA	512	478	536
Depreciation	39	44	48
EBIT	474	434	488
Interest cost	-	1	-
Other Income	37	23	9
Profit Before Tax	511	455	496
Tax	100	98	111
Profit After Tax	410	357	385
Minority Interest	-	-	-
P/L from Associates	-	-	-
Adjusted PAT	410	357	385
E/o income / (Expense)	(31)	(37)	8
Reported Profit	379	320	393

Key Ratios (Consolidated)

	CY13	CY14	CY15
EBITDA Margin (%)	22.4	18.5	17.2
EBIT Margin (%)	20.7	16.8	15.6
NPM (%)	18.0	13.8	12.3
ROCE (%)	42.5	36.7	36.5
ROE (%)	34.2	28.7	28.3
EPS (Rs.)	13.7	11.9	12.8
P/E (x)	9.6	16.8	19.1
BVPS(Rs.)	39.9	42.9	47.5
P/BVPS (x)	3.3	4.7	5.1
EV/EBITDA (x)	7.1	12.0	13.0



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